



**LDIC North American Small Business Fund**

**(Corporate Class)**

Management Report of Fund Performance

December 31, 2016

*Series A shares, Series F shares and Series F1 shares of LDIC North American Small Business Fund*

## **LDIC North American Small Business Fund**

For the Year ended December 31, 2016

All figures are reported in Canadian dollars unless otherwise noted.

This management report of fund performance contains financial highlights but does not contain either the complete interim financial report or annual financial statements of the investment fund. You can get a copy of the financial statements at your request and at no cost, by contacting LDIC Inc. in one of the methods below.

Shareholders may contact LDIC Inc. to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure by calling 416-362-4141, by writing to us at 130 King Street West, Suite 2130, Toronto, ON, M5X 1E2 or by visiting our website at [www.ldic.ca](http://www.ldic.ca) (email at [info@ldic.ca](mailto:info@ldic.ca)), or SEDAR at [www.sedar.com](http://www.sedar.com).

### **Investment Objectives and Strategies**

The investment objective of the Fund is to provide long-term capital appreciation and income by investing primarily in equity and fixed income securities of small cap companies based in North America. The Fund may also include similar investments in mid-capitalization businesses. The prior approval of shareholders is required before a fundamental change is made to the investment objective of the Fund. This approval must be given by a resolution passed by a majority of the votes cast at a meeting of the shareholders of the Fund.

Techniques such as fundamental analysis may be used to assess the growth and value potential of an investment which requires evaluating the financial condition and management of each company, its industry and the overall economy. As part of this evaluation, the Manager may analyze financial data and other information sources, assess the quality of management, and conduct company interviews.

### **Risk**

As of December 31, 2016, the risks of investing in the Fund remain as described in the prospectus. The main risk to investors is the market capitalization risk of small companies. Small cap companies are inherently higher risk because of 1) lower trading liquidity, 2) access to capital can be limited, and 3) operational history can be limited/minimal.

The Fund is suitable for investors who are seeking a potential for capital appreciation, have high risk tolerance and have a medium to long-term investing horizon. However, the level of risk associated with any particular investment depends largely on an investor's personal circumstances. Investors can invest a component of their total portfolio in the Fund to provide portfolio diversification. Investors should consider their personal investment profile and consult their financial advisor before making a decision to invest in the Fund.

### **Result of Operations**

Led primarily by resource and energy related equities, small cap market returns were very strong in 2016. The resource-heavy Canadian S&P/TSX Small Cap Index was up 38.5% on a total return basis in 2016, with the more diversified US Russell 2000 index up a lesser but still impressive 21.3% for the year. Canadian outperformance was led by strength in gold stocks through the first half of the year, and by energy stocks through the back half. In the US, much of the Russell 2000 gains were realized in November, when the index was up 11.1% following the US Presidential election. All in, the funds benchmark (70% S&P/TSX Small Cap

Index / 30% Russell 2000) was up a sizeable 33.3% in 2016, compared to a 28.9% return for the Fund (Series A). Total net assets of the Fund ended the year at \$19.7 Million.

### **Recent Developments**

On May 30, 2016, the Portfolio Manager of the Fund changed with the entrance of Marc Robinson to the firm, a previous Portfolio Manager and long-time sell-side analyst. Under new advisory, and beginning in June, the Fund materially turned-over the portfolio, while continuing to focus on the original mandate of investing in high-quality small cap companies. Through June, exposure to materials and energy stocks was increased, with the Fund expanding the breadth of names in the portfolio. Since May 30, 2016 through the end of the year, the Fund was up 23.1% (Class A), representing the majority of the annual gains. The Portfolio Manager of the Fund believes that the companies in the Fund will demonstrate leading growth well through the medium term, and will be able to sustain such growth even in a slower growth economy. The Fund has again begun to significantly grow net assets. The Fund has also added a new Series F1 on May 31, 2016. Series F shares are no longer offered for distribution but are still held by shareholders that have purchased the series previously. More information on each series is provided below.

### **Related Party Transactions**

The Manager of the Fund is LDIC Inc. The Manager provides investment and administrative services to the Fund. In consideration for these services the Manager receives a fee based on a percentage of the Net Assets of the Fund calculated daily and payable monthly, as follows:

Series A - 2.00% per annum

Series F - 1.00% per annum

Series F1 - 1.50% per annum

The Fund will pay a performance fee to LDIC Inc., plus applicable taxes, at the end of each fiscal year. The performance fee will be 15% of the amount by which the Series NAV at the end of the fiscal year (adding back the amounts of any distributions paid on the shares of the Fund) (the "ending NAV") exceeds the target NAV. The target NAV is calculated by multiplying the Series NAV, net of performance fees paid, as at the last performance fee payment date (the "beginning NAV") by the sum of one plus the return of the Fund's "benchmark" (the "benchmark return") over the same period.

As of December 31, 2016, the Manager of the Fund and certain Directors and Officers of the manager held a total of 337,621 shares of the F Series and 50,378 shares of the F1 Series of the Fund.

### **Management Fees**

All management fees are based on the NAV of a series of shares, calculated on each Valuation Date and paid monthly.

The management fee for the fund is 2.00% for Series A, 1.00% for Series F, and 1.50% for Series F1. The breakdown of the services received in consideration of the management fee, as a percentage of the management fee is:

	Series A	Series F	Series F1
Management of Fund	37.5%	100%	100%
Trailing commission to Broker	62.5%	N/A	N/A

## Financial Highlight

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance of year ended December 31, 2016 and the period from date of inception to December 31, 2015 as applicable. Per unit data is derived from the Fund's financial statements.

Ratios and supplemental data are derived from the Fund's Net Asset Value.

	SERIES A	
	2016	2015 <sup>(4)</sup>
<b>Net Assets, beginning of year</b>	<b>\$ 9.66</b>	<b>\$ 10.00</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	0.19	0.19
Total expenses	(0.57)	(0.50)
Realized gains (losses) for the year	2.42	(0.46)
Unrealized gains (losses) for the year	1.14	0.47
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 3.18</b>	<b>\$ (0.30)</b>

### **Distributions**

From income (excluding dividends)	-	-
From dividends	-	(0.02)
From capital gains	-	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of year</b>	<b>\$ 12.45</b>	<b>\$ 9.66</b>

	SERIES F	
	2016	2015 <sup>(4)</sup>
<b>Net Assets, beginning of year</b>	<b>\$ 9.66</b>	<b>\$ 10.00</b>
<b>Increase (decrease) from operations:</b>		
Total revenue	0.22	0.17
Total expenses	(0.44)	(0.42)
Realized gains (losses) for the year	1.83	(0.51)
Unrealized gains (losses) for the year	1.34	0.64
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 2.95</b>	<b>\$ (0.12)</b>

### **Distributions:**

From income (excluding dividends)	-	-
From dividends	-	(0.02)
From capital gains	-	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>-</b>	<b>(0.02)</b>
<b>Net Assets, end of year</b>	<b>\$ 12.60</b>	<b>\$ 9.66</b>

	<b>SERIES F1</b>	
	<b>2016</b>	
<b>Net Assets, beginning of period</b>	<b>\$</b>	<b>10.00</b> <sup>(5)</sup>
<b>Increase (decrease) from operations:</b>		
Total revenue		0.08
Total expenses		(0.31)
Realized gains (losses) for the period		2.08
Unrealized gains (losses) for the period		0.32
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$</b>	<b>2.17</b>
<b>Distributions:</b>		-
From income (excluding dividends)		-
From dividends		-
From capital gains		-
Return of capital		-
<b>Total annual distributions<sup>(3)</sup></b>		<b>-</b>
<b>Net Assets, end of period</b>	<b>\$</b>	<b>12.63</b>

(1) This information is derived from the Fund's audited annual financial statements.

(2) Net Assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(3) Distributions were paid in cash/reinvested in additional shares of the Fund, or both.

(4) Shares of Series A for this Fund were first issued on May 29, 2015 and Series F shares were first issued on May 22, 2015.

(5) Shares of series F1 for this Fund were first issued on May 31, 2016.

### Ratios and Supplemental Data

	<b>SERIES A</b>	
	<b>Dec 31,</b>	<b>Dec 31,</b>
	<b>2016</b>	<b>2015</b> <sup>(6)</sup>
Total Net Asset Value (\$) <sup>(1)</sup>	2,842,989	936,021
Number of shares outstanding <sup>(1)</sup>	228,310	96,931
Management expense ratio <sup>(2)</sup>	3.85%	7.98% <sup>(5)</sup>
Management expense ratio before waivers or absorption <sup>(2)</sup>	3.85%	7.98% <sup>(5)</sup>
Trading expense ratio <sup>(3)</sup>	1.21%	0.98% <sup>(5)</sup>
Portfolio turnover rate <sup>(4)</sup>	187.49%	50.29%
Net Asset Value per share (\$)	12.45	9.66

	<b>SERIES F</b>	
	<b>Dec 31,</b>	<b>Dec 31,</b>
	<b>2016</b>	<b>2015</b> <sup>(6)</sup>
Total Net Asset Value (\$) <sup>(1)</sup>	11,635,004	8,873,090
Number of shares outstanding <sup>(1)</sup>	923,159	918,432
Management expense ratio <sup>(2)</sup>	2.78%	6.37% <sup>(5)</sup>
Management expense ratio before waivers or absorption <sup>(2)</sup>	2.78%	6.37% <sup>(5)</sup>
Trading expense ratio <sup>(3)</sup>	1.21%	0.98% <sup>(5)</sup>
Portfolio turnover rate <sup>(4)</sup>	187.49%	50.29%
Net Asset Value per share (\$)	12.60	9.66

	<b>SERIES F1</b>	
	<b>Dec 31,</b>	
	<b>2016</b> <sup>(7)</sup>	
Total Net Asset Value (\$) <sup>(1)</sup>	5,269,642	
Number of shares outstanding <sup>(1)</sup>	417,085	
Management expense ratio <sup>(2) (5)</sup>	2.94%	
Management expense ratio before waivers or absorption <sup>(2) (5)</sup>	2.94%	
Trading expense ratio <sup>(3) (5)</sup>	1.21%	
Portfolio turnover rate <sup>(4)</sup>	187.49%	
Net Asset Value per share (\$)	12.63	

(1) The information is provided as at December 31 of the period(s) shown, as applicable.

(2) Management expense ratio is based on total expenses (excluding broker commissions and other portfolio transaction costs before income taxes) for the stated period and is expressed as an annualized percentage of daily average Net Asset Value during the period. The decision to waive and/or absorb management fees and operating expenses is at the discretion of the Manager. The practice of waiving and/or absorbing management fees and operating expenses may continue indefinitely or may be terminated any time without notice to shareholders.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover in a period, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

(5) Percentages are annualized.

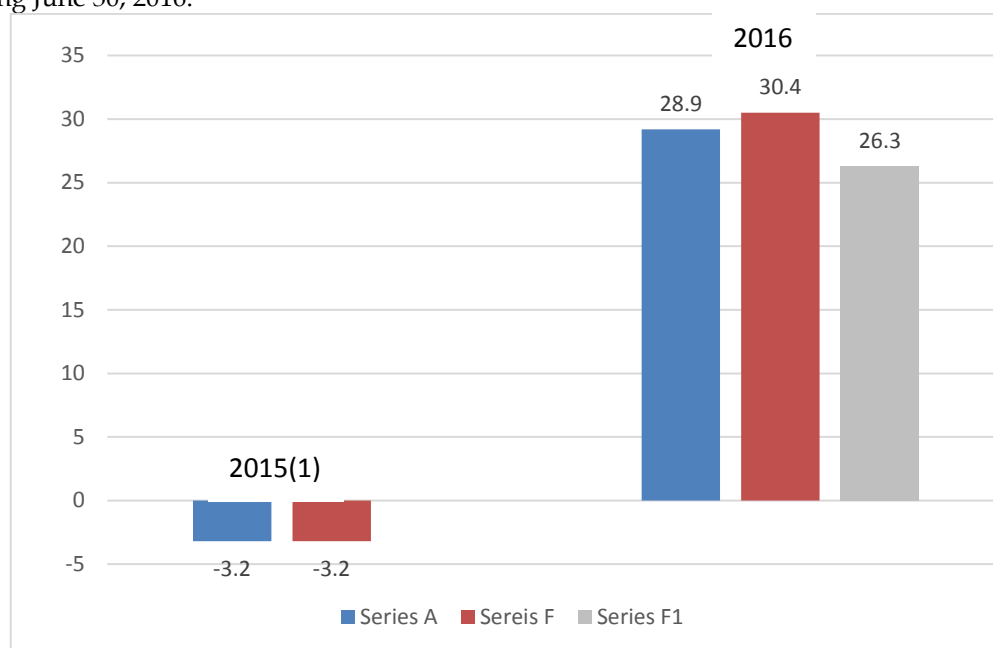
(6) Shares of series A for this Fund were first issued on May 29, 2015 and series F were first issued on May 22, 2015.

(7) Shares of series F1 for this Fund were first issued on May 31, 2016.

## Past Performance

### A) Annual Total Returns (%)

The bar chart shows the investment fund's performance in percentage terms of Series A and F of the Fund, since inception of the fund to December 31, 2015 and Series A, Series F, and Series F1 for the period ending June 30, 2016.



(1) Returns for Series A and Series F, are from May 29 and May 22, 2015 respectively, to December 31, 2015.

(2) Returns for Series F1 is from May 31, 2016 to December 31, 2016.

### B) Annual Compound Returns

The table below shows the annual compound return of each Series of the Fund, for each period indicated, in comparison to the Fund's benchmark.

	Series A		Series F		Series F1
	Since Inception (May 22/15)	1 year	Since Inception (May 22/15)	1 year	Since Inception (May 31/16)
LDIC North American Small Business Fund	14.6%	28.9%	15.7%	30.4%	26.3%
70%/30% Blended Index <sup>(3)</sup>	8.2%	33.3%	8.2%	33.3%	13.7%

(3) The benchmark is blend of 70% S&P TSX Small Cap index (CAD) & 30% Russel 2000 Index (USD)

## About the Fund's Benchmark

### S&P TSX Small Cap Index (70%)

The S&P/TSX SmallCap Index measures the performance of small cap Canadian equity securities listed on the Toronto Stock Exchange. Securities in the index are selected by S&P using its industrial classifications and guidelines for evaluating issuer capitalization, liquidity and fundamentals. The index is float adjusted and



market cap weighted and was developed with industry input as the ideal benchmark for those with small cap exposure of the Canadian equity market.

**Russel 2000 Index (30%)**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

**Summary of Investment Portfolio as at December 31, 2016 (audited)**

**Investments as of December 31, 2016**

		<b>% of Fund's Net Asset Value</b>
01	Firan Technology Group Corp.	3.4
02	Invescor Restaurant Group Inc.	3.2
03	ECN Capital Corp.	2.9
04	Kelt Exploration Ltd.	2.7
05	Tree Island Steel Ltd.	2.7
06	Wow Unlimited Media Inc.	2.5
07	Kinaxis Inc.	2.4
08	Birchcliff Energy Ltd.	2.4
09	Sprott Resource Corp.	2.4
10	Goeasy Ltd.	2.3
11	Chorus Aviation Inc.	2.3
12	GreenSpace Brands Inc.	2.3
13	Information Services Corp.	2.3
14	Black Diamond Group Ltd.	2.3
15	Spartan Energy Corp.	2.3
16	AGT Food & Ingredients Inc.	2.2
17	Whitecap Resources Inc.	2.2
18	Cargojet Inc.	2.2
19	Cardinal Energy Ltd.	2.1
20	StorageVault Canada Inc.	2.1
21	Dealnet Capital Corp.	2.1
22	Park Lawn Corp.	2.0
23	Parkland Fuel Corp., Private Placement	2.0
24	Polaris Infrastructure Inc.	1.9
25	Altius Minerals Corp.	1.9
		<hr/> <b>59.1</b> <hr/>

Total Net Asset Value of the Fund as at December 31, 2016: \$19,747,635

As of December 31, 2016, all investments were long only positions.

Sector Mix	% of Fund's Net Asset Value	Geographic Mix	% of Fund's Net Asset Value
Corporate Bonds	-	Canada	92.9
Consumer Discretionary	14.1	United States of America	1.3
Consumer Staples	6.7	Cash	6.6
Energy	21.3	Net Other Liabilities	(0.8)
Financials	4.4		<b>100.0</b>
Health Care	1.9		
Industrials	17.7		
Information Technology	13.7		
Materials	8.7		
Utilities	5.7		
Cash	6.6		
Net Other Liabilities	(0.8)		
	<b>100.0</b>		

The summary of investment portfolio may change due to ongoing portfolio transactions of the investment fund. A quarterly update is available. For more information please contact LDIC Inc. using the corporate information included below.

### **Corporate Information**

#### **Corporate Address**

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